

Exhibit 2

What investors are being told about UFC revenues -
Bloody Elbow



Bloody Elbow, for MMA and UFC news

What investors are being told about UFC revenues

280 ,

The first of three articles looking at the UFC's finances. In part one we use reports from various financial service companies to examine the UFC's revenues.

By [John S. Nash](#) | Oct 20, 2015, 7:30am EDT



While there always seems to be a great deal of questions regarding the finances of the Ultimate Fighting Championship there also seems to be little in the way of actual answers available. "How much revenue does the UFC bring in?" "How much do they make from their FOX deal in comparison to pay-per-view?" "Why has the UFC taken on so much debt?" "What are the company's earning?" "What percentage of revenue do the fighters make?"

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Brendan Schaub says UFC fighters only get about 7% of the pie, while Jon Anik says it's around 30-35% of Zuffa's income.

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John S. Nash

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Anik & Schaub debate UFC revenue split What could an association do for fighters?

As the biggest and most important promotion in the sport of mixed martial arts, it is understandable why so many are curious to know the answers to these questions. As the commonly identified "800 pound gorilla" in MMA, their financial health is the financial health of the sport. Unfortunately for those interested in those answers they are not readily available. Due to the fact that its parent entity, Zuffa, LLC, is a private company, the UFC has no obligation to share any such information with the public, which often leaves us only with speculation and guesses.

This isn't to say that the UFC's finances are completely opaque. While Zuffa's books may indeed be closed to us there are other sources out there that offer a glimpse into their business.

Two of the Big Three credit rating agencies, Standard and Poor's and Moody's, both regularly issue reports on Zuffa, LLC's finances to its clients. Both of these companies are nationally recognized statistical rating organizations whose purpose is to inform potential lenders of Zuffa's ability to meet their loan obligations. (Moody's importance on the bond market is such that **New York Times columnist Thomas Friedman once commented** that there were two superpowers in the world: the U.S. and Moody's.) As NRSRO's they have access to a company's finances and a duty to keep lenders properly informed, which they do so through their credit reports.

A major problem for most people though is that these reports are not free. A reader may have to pay a couple of hundred dollars to access a Moody's analysis for a single year. With these reports usually offering only a small snippet of actual data, the cost of collecting all of them is obviously too prohibitive for most.

More useful are the reports issued by Deutsche Bank, which was the "Lead Arranger" for their 2007 and 2009 loans. According to **Bloomberg's 2015 Global M&A Market Review Financial Rankings** Deutsche Bank is one of the world's largest financial institutions with an 8.7% share of all announced global mergers and acquisitions. Unlike Moody's or Standard and Poor's, the Deutsche Bank Confidential Internal Memorandums contain a wealth of hard numbers from Zuffa directly. Unfortunately these are even harder to come by as they are intended to be seen only by potential lenders and are not meant for public consumption.

Bloody Elbow has acquired and studied every report issued by Moody's and Standard and Poor's regarding Zuffa and has also gained access to the two Deutsche Bank reports. Using these, along with the aid of several financial professionals -- including a senior executive corporate accountant, a professor of economics, a CPA with a Federal agency, and several MMA and boxing industry professionals -- we have attempted to construct a financial history of the UFC from 2001-2014, starting from the time Zuffa purchased the promotion and ending last year. The hope is that we bring some clarity to what has been enigmatic for years and in the process perhaps also answer some of those long lingering questions.

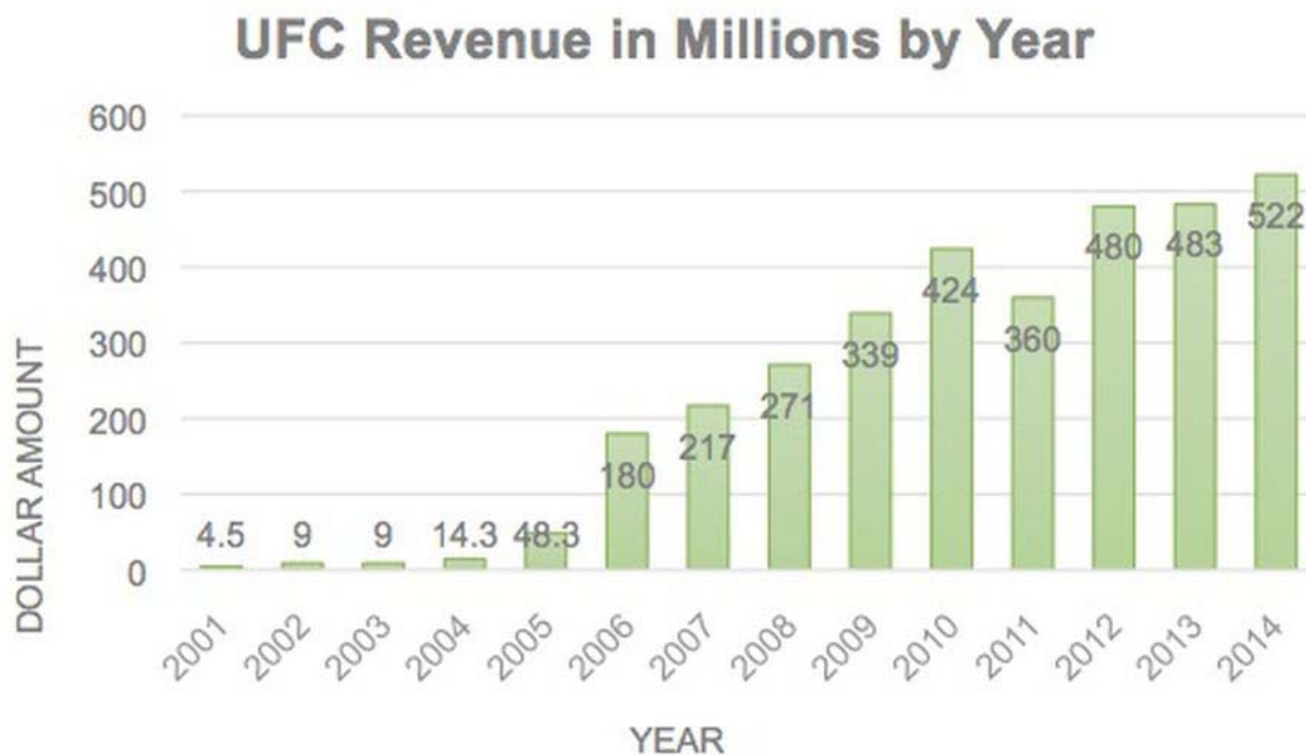
For convenience we have broken this into three parts: revenue, debt, and earnings. For part one we will be looking at revenue.

Thankfully, for seven of the fourteen years that Zuffa has owned the UFC there is no need to come up with an estimate for revenue because an amount has already been given to us in a financial report. The May 2007 Deutsche Bank Confidential Information Memorandum includes the total revenue for the years 2001, 2004, 2005, and 2006, while we retrieved 2012's revenue from the 2013 Deutsche Bank report.

The revenue for the years 2013 and 2014 were reported in the February 3, 2014 and February 19, 2015 Moody's Credit Opinion: Zuffa, LLC, respectively. Unlike the other years which end on December 31 these last two cover the Last Twelve Months ending on

September 30. This means there is a three month overlap between the 2012 and 2013's revenue total.

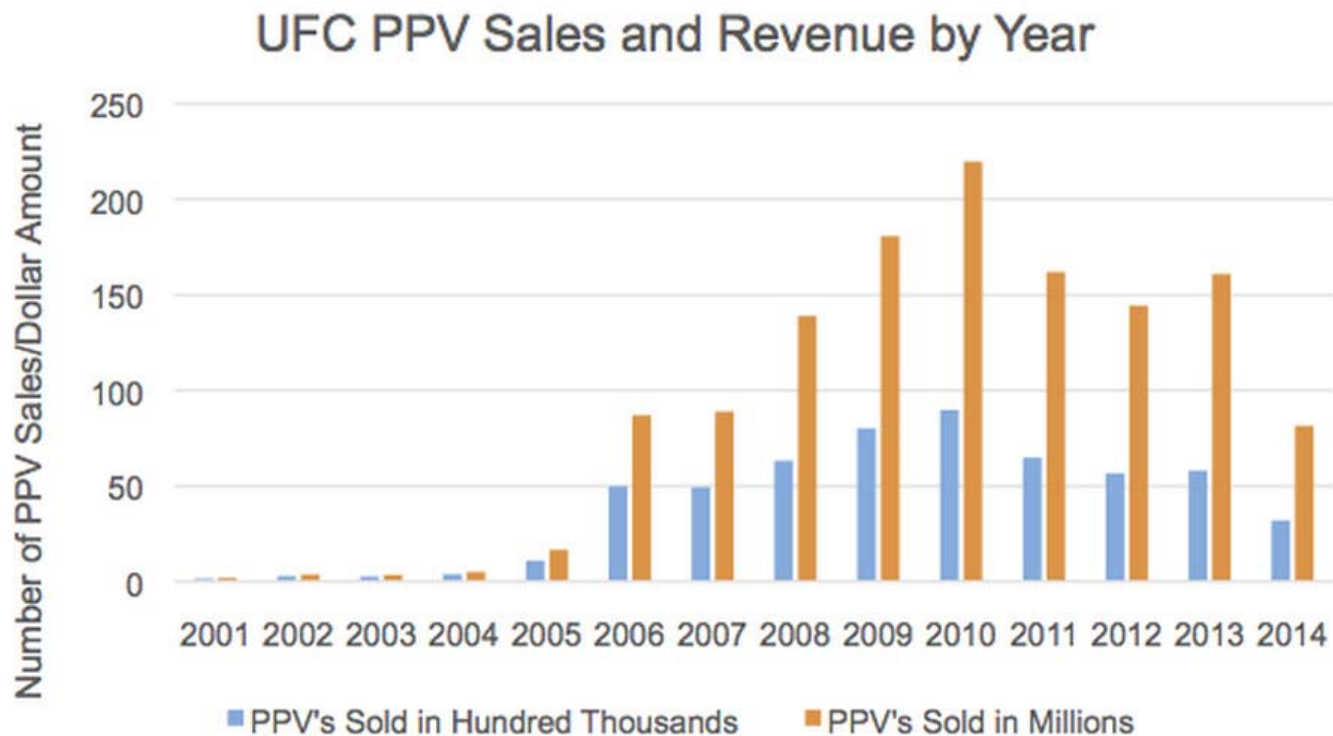
For the other years some math was required (See below for details how we came up with our estimates) to fill in the revenue amounts.



Year	Revenue
2001	\$4.6m
2002	\$9.0m
2003	\$9.0m
2004	\$14.3m
2005	\$48.3m

- For Last Twelve Months Ending on 9/30

An estimate for each year's pay-per-view revenue was also made, using the data reported on the 2007 Deutsche Bank Memorandum for the years 2001-2006 and **industry pay-per-view estimates** for everything after 2006. (It should be noted that the estimates listed in MMA Payouts Blue Book could be off as much as +/-15% from the company sourced pay-per-view numbers but we made no adjustments to them.)



PPV Revenue

Year	PPV Sold	Avg PPV price	SPLIT w/ Provider	PPV revenue 000s
2001	145,588	\$28.91	44%	\$1,852
2002	284,214	\$29.95	44%	\$3,745
2003	264,890	\$29.95	44%	\$3,491

2004	388,324	\$29.95	44%	\$5,117
2005	1,098,954	\$34.42	44%	\$16,642
2006	4,984,204	\$39.68	44%	\$87,020
2007	4,935,000	\$41.0	44%	\$89,027
2008	6,325,000	\$46.7	47%	\$138,941
2009	8,020,000	\$47.95	47%	\$180,743
2010	8,980,000	\$48.95	50%	\$219,786
2011	6,485,000	\$49.95	50%	\$161,963
2012	5,670,000	\$50.95	50%	\$144,443
2013	5,810,000	\$52.8	50%	\$153,384
2014	3,200,000	\$51.66	50%	\$82,656

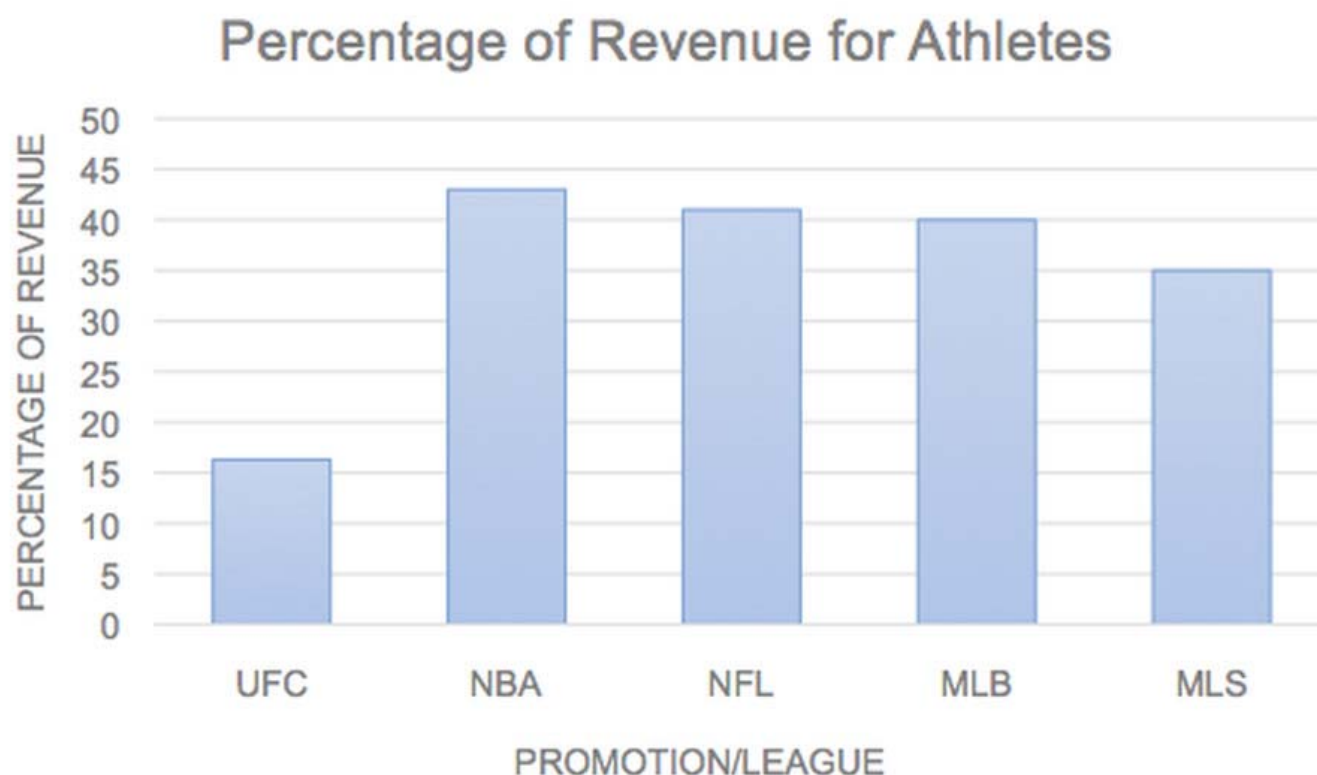
With these reported and estimated revenue numbers we can now try to answer at least one of the questions we posed at the beginning: "what percentage of the revenue is going to the fighters?"

While we can't answer this for every year we can try to make an estimate for the period covering 2005 through 2011 using our revenue totals and comments from the owners of the UFC. According to **UFC CEO Lorenzo Fertitta in an interview with ESPN**, the company had paid "more than \$250 million" to the fighters during that timeframe, a total that he claims would be "not far off what the other sports leagues pay as a percentage of revenue."

With an estimated \$1.839 billion in revenue generated from 2005-2011, \$250 million in

fighter wages would represent 13.6% of all revenue. If the amount paid out to the fighters was \$300 million then the fighters' share of revenue would rise to 16.3%.

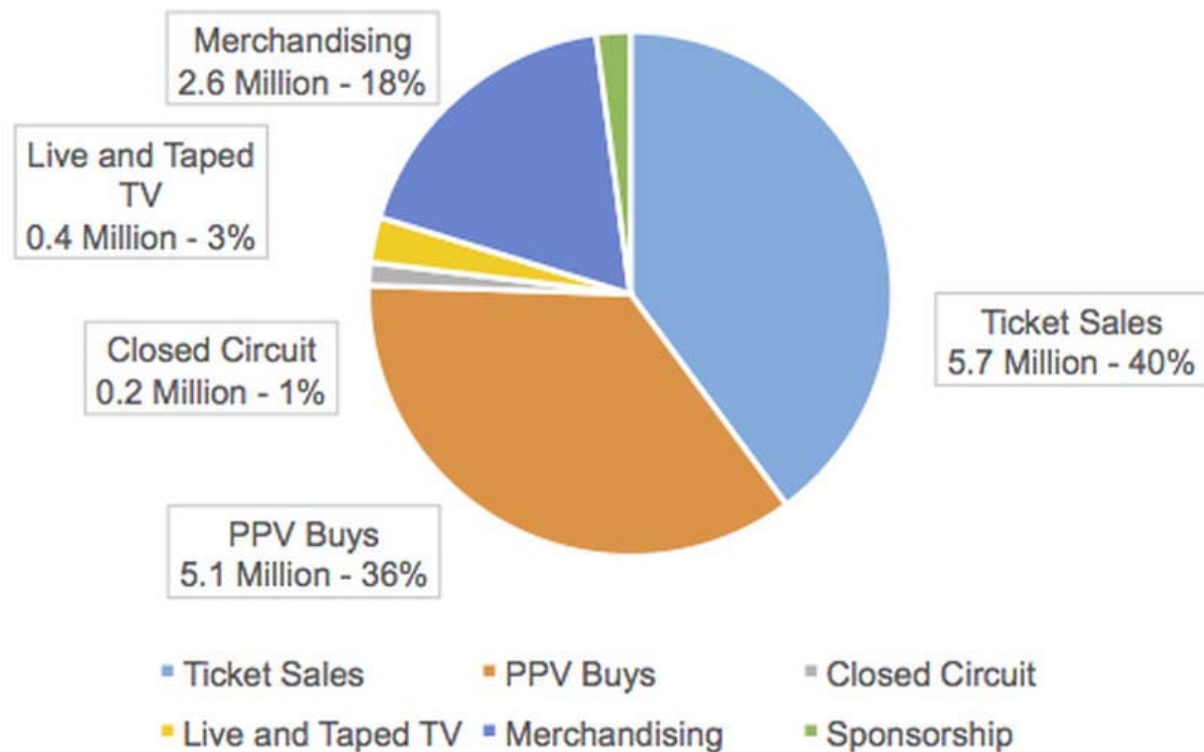
In most of the North American major league sports collective bargaining agreements call for revenue splits of usually 50% of all revenue for the athletes. This is misleading since there are often exemptions to some of it so that it is not included in the revenue sharing agreement. Even if we adjust the players payroll as a share of the other league's revenue though our estimate of the fighters share of the UFC's revenue still comes in much lower. [i]



When looking over the yearly revenue numbers it is obvious that 2005-2006 was a turning point for the company. When one breaks down the sources of revenue this becomes even more apparent as money from tickets, television, sponsors, and pay-per-view all skyrocketed following the launch of the The Ultimate Fighter in 2005. A breakdown in the revenue for the years 2004, 2005, and 2006 really demonstrates how big of impact the reality show had on their business.

2004 UFC Revenue

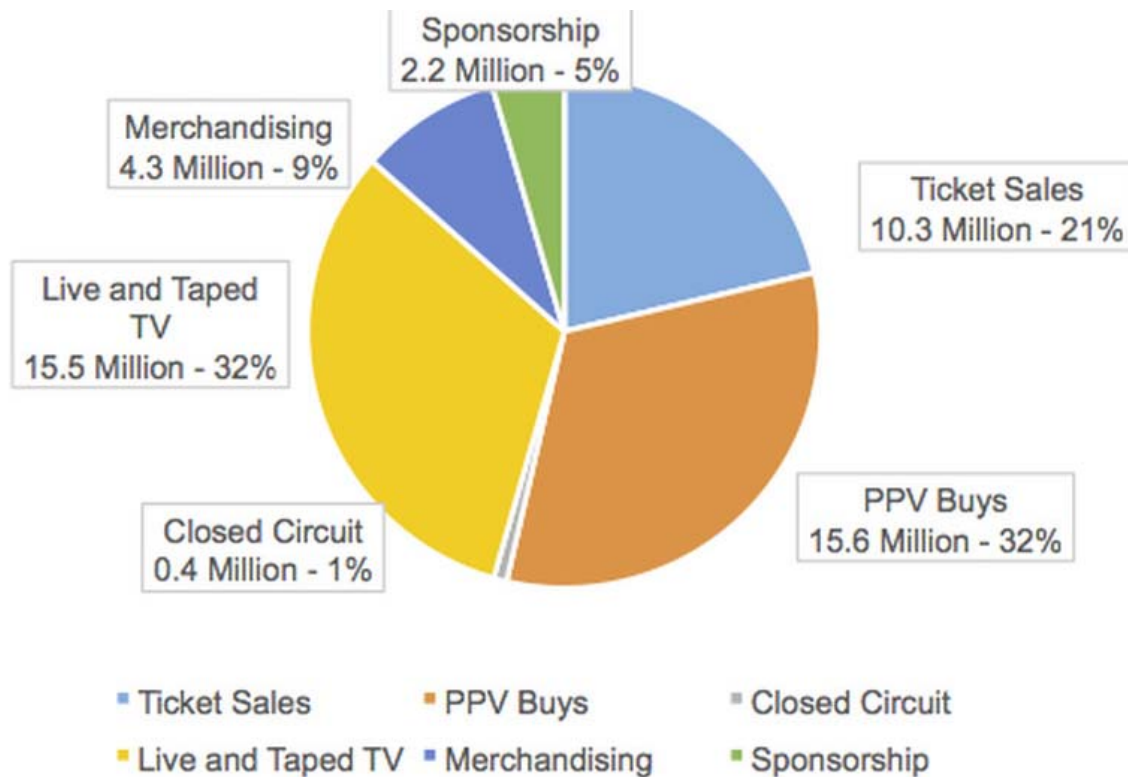
Sponsorship
0.3 Million - 2%



2004 Revenue Breakdown

Category	Amount in millions	
Ticket sales	\$5.7	40%
PPV Buys	\$5.1	36%
Closed Circuit	\$0.2	1%
Live and Taped TV	\$0.4	3%
Merchandising	\$2.6	18%
Sponsorship	\$0.3	2%

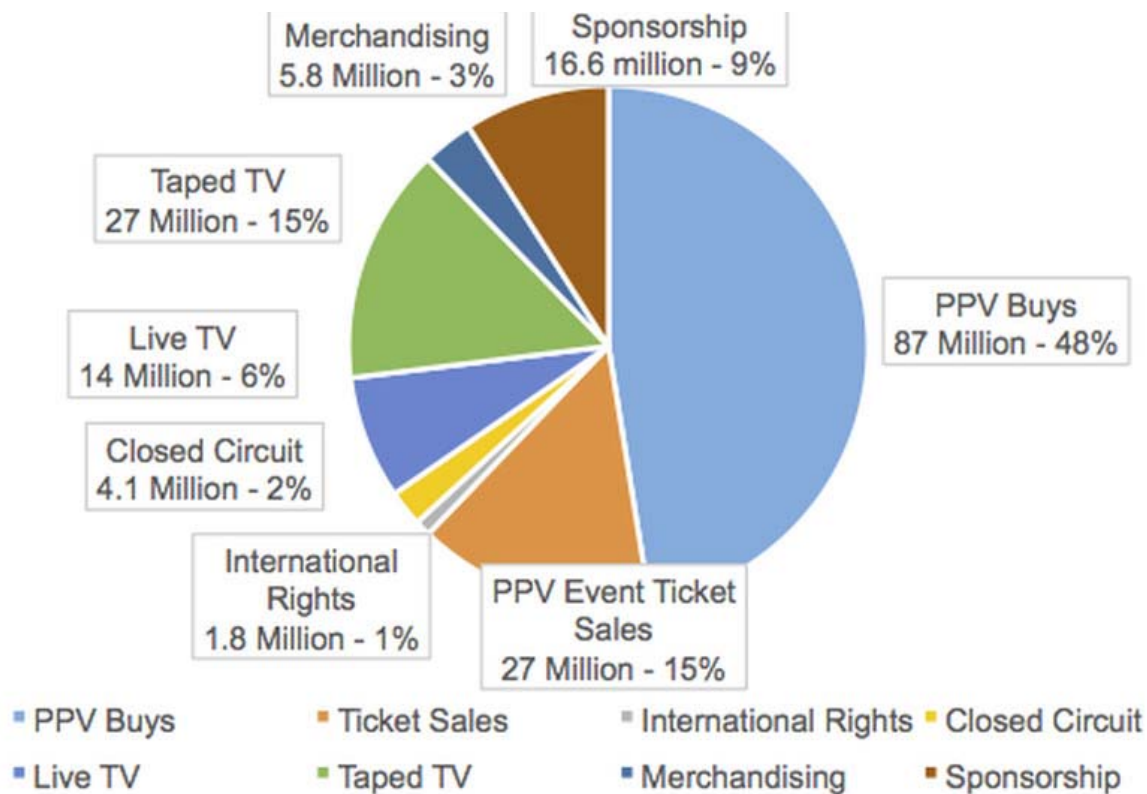
2005 UFC Revenue



2005 Revenue Breakdown

Category	Amount in millions	Share of total revenue
Ticket sales	\$10.3	21%
PPV Buys	\$15.6	32%
Closed Circuit	\$0.4	1%
Live and Taped TV	\$15.5	32%
Merchandising	\$4.3	9%
Sponsorship	\$2.2	5%

2006 UFC Revenue (not a complete 100%)



2006 Revenue Breakdown

(note does not add up to 100%)

Category	Amount in Millions	Share of total revenue
PPV Buys	\$87.00	48%
PPV Event Ticket Sales	\$27.00	15%
International Rights	\$1.80	1%
Closed Circuit	\$4.10	2%
Live TV	\$14	6%

Taped TV	\$27	15%
Merchandising	\$5.8	3%
Sponsorship	\$16.6	9%

In only two years the UFC saw a 1258% increase in their revenue. This included approximately 1700% growth in pay-per-view revenue, a 5500% increase in money from sponsorships, and a more than 10,000% increase in revenue from live and taped television.

Since then the UFC has managed to greatly diversify its sources of revenue mostly through the licensing of a video game, new television deals, both domestic and foreign, and sponsorships.

In 2009 the video game UFC Undisputed was released. Over 7 million copies were sold by the original producer THQ between 2009-2011, of which **the UFC was thought to receive around 17 percent of the gross sales**. Since 2012, the game has been produced by EA Sports.

While the UFC **benefited in 2006 from a large sponsorship deal with Xyience** that did not prove sustainable the promotion has continued to entice major companies into the Octagon. Since 2007 the company has entered into sponsorship agreements with numerous mainstream advertisers. Amongst the ranks of their sponsors are Anheuser-Busch (Bud Light), Dodge, Harley-Davidson, Gillette, Metro PCS, Burger King, Monster Energy, and Reebok.

In late 2011 the UFC signed a pair of large television contracts: a Fox deal in the U.S., reported to be worth \$832 million over seven years and a Globo and Globosat deal in Brazil, worth \$232 million over 5 years.^[ii] Both deals, according to the February 19, 2015 Moody's Credit Opinion, include contractual step ups in fees and/or minimum guarantees.

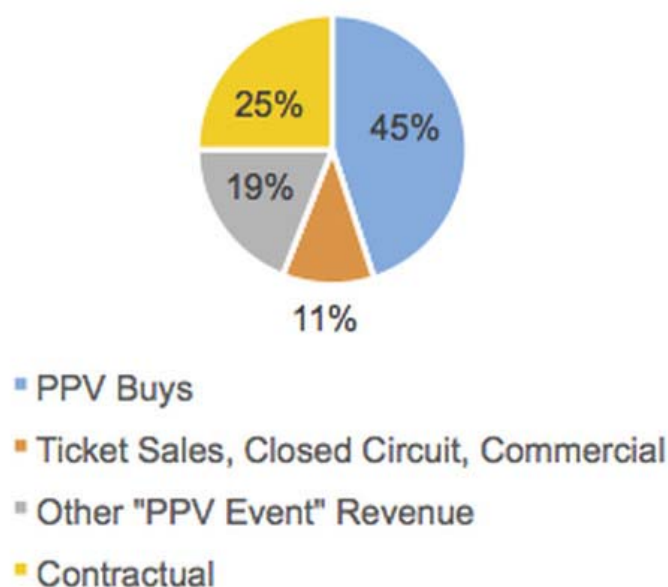
These new television deals have triggered a major change for the UFC's revenue streams. Prior to this, while the UFC was still broadcast on Spike TV, nearly 75% of all revenues came from live pay-per-view events (though revenues from those events included pay-per-view, gate, closed circuit and international rights fees, broadcast and sponsorship

revenues). The other approximately 25% of revenues were sourced from live and taped television broadcasts, as well as various other sponsorship, merchandising, and content distribution arrangements.^[iii]

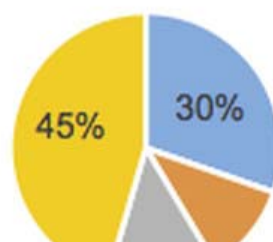
Since 2012, approximately 55% of total revenue has been event-based, with the majority of coming from pay-per-view buys and ticket sales. The remaining 45% of total revenue is derived from live and taped TV broadcasts, sponsorship, merchandising, licensing, and content distribution agreements.

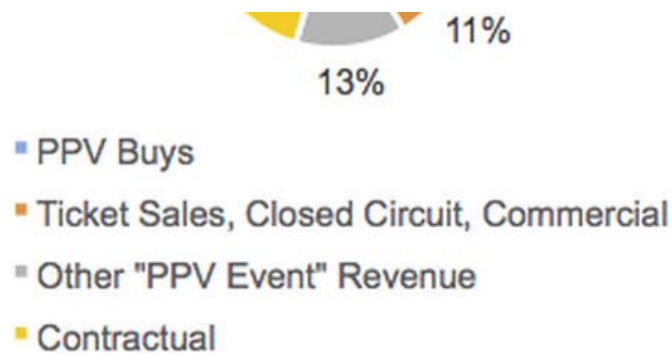
Comparison to pre FOX (2011) and Post FOX (2012) Revenue

2011 UFC Revenue Percentage Breakdown
Pre-Fox Era



2012 UFC Revenue Percentage Breakdown
Post-Fox Era





Even with a generally recognized "poor year" in 2014 the UFC has still manages to see an impressive increase in revenue and diversification in its revenue sources.

For next weeks installment we will be looking at the UFC's much discussed debt.

Note: the total pay-per-view revenue for 2013 and 2014 has been corrected to reference the totals for LTM 9/30, which the pay-per-view sales totals are referring to, and not the LTM 12/31.

Special thanks to Jacob Miller for all the graphs and charts used here.

How we got our numbers:

Zuffa saw strong growth "from 2007 to 2010, with revenue and EBITDA growth of 25% and 46% on an annualized basis," EBITDA margins of 39% for 2010,^[iv] and a debt-to-EBITDA ratio was 2.6x in 2010^[v]. With an estimated \$414 still outstanding on their term loan (see **part 2** on Debt for how we came to this estimate) and \$15 million outstanding on the revolving credit facility,^[vi] we estimate Zuffa had \$429 million in debt at the end of 2010.

Dividing the debt (\$429 million) by the leverage ratio (2.6x) gives us an EBITDA of \$165 million for 2010. With an EBITDA margin of 39% we are looking at \$423 million in total revenue that year. With revenue growing at 25% on an annualized basis we can estimate \$338 million in total revenues for 2009, \$271 million in total revenues for 2008, and \$217 million in total revenue for 2007.

These numbers are line with what has been reported by others, with estimates that the UFC **passed the \$250 million mark in revenue in 2008, \$300 million in 2009, and \$400**

million in 2010. It also roughly aligns with an reported **50% increase in total revenue from 2009 to 2013.**

While we don't have total revenue numbers for 2002 and 2003 we do have information regarding pay-per-view buys and ticket sales for the years 2001-2004 to help us make an estimate. Here are the number of pay-per-view buys, the average price per buy, the pay-per-view revenue, and the gate revenue for those years.

Year	PPV sales[vii]	Avg PPV Price[viii]	PPV revenue*	Total gate revenue[ix]	Total revenue[x]	% from PPV & gate
2001	145,588	\$28.91	\$1,851,938	\$2.15m	\$4.6m	87%
2002	284,214	\$29.95	\$3,745,372	\$3.67m	?	?
2003	264,890	\$29.95	\$3,490,720	\$3.90m	?	?
2004	388,324	\$29.95	\$5,117,334	\$5.70m	\$14.3m	76%

- Assuming the UFC averages a 44% share between the company and the PPV distributor of all gross revenues generated through the sale of PPV events as was reported in the May 2007 Ultimate Fighting Championship Confidential Information Memorandum from Deutsche Bank

In 2001 the UFC had \$4.6 million in revenue, with an estimated \$4.0 million of it - 87% - from pay-per-view sales and live gate. In 2004 the UFC's total revenue was \$14.3 million, with an estimated \$10.8 million - 76% - from pay-per-view sales and live gate. Assuming that the percentage of revenue from pay-per-view and live gate in 2002 and 2003 is 82%, the average between 2001 and 2004, then the estimated total revenue for 2002 and 2003 is \$9 million each year.

We tried several different means to estimate the total revenue for 2011. One of the simplest methods we used was assuming that that the same amount of revenue was generated in 2011 as in 2010 with the exception of pay-per-view revenue. After deducting

the roughly \$60 million less in pay-per-view sales that 2011 was thought to have sold as 2010 we had our first estimate.

Another was based on the **Sports Business Journal's reporting** that 45 percent of all revenue in 2009 (pre Fox deal) was from pay-per-view sales. After coming up with an estimate for pay-per-view sales that year, we only had to divide the number by 0.45 to have a second estimate.

Other methods were tried as well. In the end though, almost all our estimates resulted in a total revenue of around \$360 million, which is what we ended up using.

Two different methods were used to attain our estimates for pay-per-view revenue. For the years 2001-2006, the number of pay-per-views sold, the average price of a pay-per-view, and the UFC's 44% average share of gross pay-per-view was taken from the May 2007 Deutsche Bank Memorandum. The number of pay-per-views sold for the years 2007 through 2014 was compiled using **MMA Payout's Blue Book**. For those same years average price of a pay-per-view is based on the current price of a UFC pay-per-view and an estimate on the percentage of hi-definition and standard definition purchased made to us by industry experts.

UFC Pay-Per-View History

UFC 33 - \$29.95

UFC 52 - \$34.95

UFC 59 - \$39.95

UFC 67 - (HD + \$10.00 introduced)

UFC 81 - \$44.95

UFC 168 - \$49.95/\$59.95

The UFC percentage share of gross pay-per-view sales was adjusted upwards for 2008 based on the 2007 Deutsche Bank Memo reporting that many key PPV provider contracts were set to "expire in the next year" and that there was "significant opportunity to leverage off [the UFC's] success and negotiate more favorable terms with its PPV distributors", and

a report that PPV revenues had trended up from 2007 because of "more favorable contract terms."**[xi]** The same was done in 2010 to reflect the reports that pay-per-view event revenues had increased that year partly because of "more favorable contract terms with PPV providers."**[xii]** The final number used for the UFC's share of gross pay=per-view sales was an estimated based on these assumptions.

[i] Players share of MLB, NFL, and NBA league revenues are from **"The MLBPA Has a Problem" by Nathaniel Grow, posted on Fangraphs March 30, 2015**. Major League Soccer's revenue split was calculated using the **league's reported revenue** and their **reported players salaries**.

[ii] January 2013 Deutsche Bank Confidential Information Memorandum

[iii] S&P "Summary: Zuffa, LLC". Aug. 19 2011

[iv] Moody's "Credit Opinion: Zuffa, LLC" December 2, 2011

[v] Moody's "Credit Opinion: Zuffa, LLC" February 3, 2014

[vi] Standard & Poor's "Research Update", December 20, 2010

[vii] May 2007 Deutsche Bank Confidential Internal Memorandum

[viii] *Ibid.*

[ix] *Ibid.*

[x] *Ibid.*

[xi] Standard & Poor's "Research Update" October 1, 2009.

[xii] Standard & Poor's Research Update December 20, 2010.

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